CSG SYSTEMS INTERNATIONAL INC
Form POS AM
January 25, 2005
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As filed with the Securities and Exchange Commission on January 25, 2005

Registration No. 333-117427

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 2

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CSG Systems International, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**47-0783182**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

7887 East Belleview, Suite 1000

Englewood, Colorado 80111

(303) 796-2850

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Joseph T. Ruble, Esq.

General Counsel and Corporate Secretary

CSG Systems International, Inc.

7887 East Belleview, Suite 1000

Englewood, CO 80111

(303) 796-2850

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copy to:

Jeffrey Small, Esq.

Davis Polk & Wardwell

450 Lexington Avenue

New York, NY 10017

(212) 450-4000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

This Post-Effective Amendment No. 2 to Form S-3 is being filed to update (1) the Description of CODES and related sections of the prospectus contained herein to reflect our irrevocable election on December 15, 2004 to satisfy in cash 100% of the principal amount of the CODES converted after that date, as previously disclosed in our Current Report on Form 8-K dated December 15, 2004; (2) the Selling Securityholders section of the prospectus contained herein; (3) the Plan of Distribution section of the prospectus contained herein; and (4) certain other information contained herein.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 25, 2005

PROSPECTUS

$230,000,000

2.50% Senior Subordinated Convertible Contingent Debt Securities℠ (CODES℠) due 2024

and

Common Stock Issuable Upon Conversion of the CODES

CSG Systems International, Inc. issued $230 million principal amount of the 2.50% Senior Subordinated Convertible Contingent Debt Securities℠ (CODES℠) due 2024 pursuant to the registration exemption provided under Rule 144A in June 2004. This prospectus will be used by selling securityholders to resell their CODES and the common stock issuable upon conversion of the CODES. We will not receive any of the proceeds from the resale of these securities.

The CODES are convertible, at the option of holders of CODES, initially at a conversion rate of 37.3552 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $26.77 per share, subject to adjustments described elsewhere in this prospectus, in the following circumstances:

- during any fiscal quarter, if the market price of our common stock measured over a specified number of trading days in a specified period is above 130% of the conversion price per share on the last day of such preceding fiscal quarter;
- subject to certain exceptions, during the five-business-day period following any 10-consecutive-trading-day period in which the average of the trading prices (as described below under Description of the CODES Conversion Rights Conversion Upon Satisfaction of CODES Price Condition) per $1,000 principal amount of CODES, as determined following a request from a holder to make a determination, for that 10-trading-day period was less than 98% of the average conversion value for the CODES during that period;
- if the CODES have been called for redemption; or
- upon the occurrence of specified corporate transactions.

On December 15, 2004, we irrevocably elected, by notice to the trustee and the holders of the CODES, to satisfy in cash 100% of the principal amount of the CODES converted after that date. After that date, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock.

The CODES bear interest at a rate of 2.50% per year. Interest on the CODES is payable on June 15 and December 15 of each year, beginning on December 15, 2004. Beginning with the six-month interest period commencing on June 15, 2011, we will pay additional contingent interest during a six-month period if the average trading price of the CODES during the five consecutive trading days ending on the second trading day immediately preceding the first day of the six-month period equals 120% or more of the principal amount of the CODES. The CODES will mature on June 15, 2024.

Each holder of CODES may require us, subject to certain conditions, to repurchase for cash all or any portion of that holder s CODES on June 15, 2011, June 15, 2016 and June 15, 2021 at a repurchase price equal to 100% of the principal amount of such CODES plus accrued and unpaid interest (including contingent interest and additional amounts, if any). In addition, upon a change of control, in certain circumstances, each holder may require us to repurchase for cash all or any portion of that holder s CODES at that same purchase price.

The CODES may be redeemed at our option on or after June 20, 2011 for cash as a whole at any time, or from time to time in part, at a repurchase price equal to 100% of the principal amount of such CODES plus accrued and unpaid interest (including contingent interest and additional amounts, if any).

The CODES are our general unsecured obligations and are subordinated to all our existing and future senior indebtedness. The CODES are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of our existing and future subsidiaries.

The CODES are not listed on any securities exchange or automated quotation system. Our common stock is listed on the Nasdaq National Market under the symbol CSGS. The last reported price of our common stock on January 24, 2005 was $17.52 per share.

Investing in these securities involves certain risks. See Risk Factors beginning on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2005

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You should rely only on the information contained in or incorporated by reference in this prospectus or to which we have referred you. We have not authorized anyone to provide you with different information. We are not, and the selling securityholders are not, making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus. The terms CSG Systems, we, us, and our refer to CSG Systems International, Inc. and its subsidiaries, except where the context otherwise requires or as otherwise indicated.

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This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration or continuous offering process. Under this shelf process, selling securityholders may from time to time sell the securities described in this prospectus in one or more offerings.

Each time a selling securityholder sells securities, the selling securityholders are required to provide you with a prospectus containing specific information about the selling securityholder. You should read this prospectus together with the additional information described under the heading Where You Can Find More Information.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement, including the exhibits, can be read on the SEC web site or at the SEC office mentioned under the heading Where You Can Find More Information.

This prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of certain documents referred to herein will be made available to prospective investors upon request to us.

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FORWARD-LOOKING STATEMENTS

Certain information contained in this prospectus or incorporated in this prospectus by reference includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements relate to, without limitation, our future financial condition, economic performance, plans and objectives for future operations and projections of revenue and other financial items. In addition, we and our representatives may from time to time make written or oral forward-looking statements, including statements contained in filings with the Securities and Exchange Commission and in our reports to shareholders. Forward-looking statements generally can be identified by the use of words such as may, will, should, expect, believe, antici estimate, continue or comparable terminology. Forward-looking statements involve certain risks and uncertainties, many of which are beyond our ability to control or predict with accuracy and some of which we might not even anticipate. These risks and uncertainties may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions at the time made, we can give no assurance that our expectations will be achieved. In addition, these forward-looking statements are qualified in their entirety by the cautionary statements and the Risk Factors that appear elsewhere in this prospectus or in information incorporated by reference herein. Important factors that may affect our expectations include, among other things:

- the economic state of the global telecommunications industry, including the cable television and satellite industries;
- the loss of a significant client, significant contract or the loss or material reduction in significant business from a client;
- changes in demand for our primary products and services;
- changes in technology in our industry and in the industries we serve;
- consolidation of the global telecommunications industry;
- difficulties in completing complex implementation projects;
- the availability and security of the computer systems and telecommunications networks (including the Internet) on which our products and services depend;
- changes in competitive condition in our industry;
- changes in the political, social and economic conditions in the countries in which we operate;
- the consequences of potential terrorist activities and the responses of the United States and other countries to such activities; and
- other factors beyond our control.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof or in the case of statements incorporated by reference, on the date of the document incorporated by reference. Except to the extent required by applicable law or regulation, we undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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RISK FACTORS

Before investing in our CODES or common stock, you should carefully consider the following risk factors as well as other information contained or incorporated by reference in this prospectus.

Risks Relating to Our Business

We derive a significant portion of our revenues from Comcast and Echostar, and the loss of their business would materially adversely affect our financial condition and results of operations.

We generate approximately one-third of our total consolidated revenues from our two largest clients, Comcast and Echostar. We expect to continue to generate a significant percentage of our future revenues from Comcast and Echostar. Concentration of a large percentage of total revenues with a limited number of clients imposes certain risks to our business. Our financial condition and results of operations (including possible impairment, or significant acceleration of the amortization of client contracts intangible assets) could be materially adversely affected by:

- Comcast s or Echostar s termination of or failure to renew their contracts with us, in whole or in part for any reason; or

- a significant reduction in the number of Comcast or Echostar customers processed on our system.

We recently renewed our contract with Echostar. However, such contract expires in 2006, and there is no assurance that such contract will be renewed on terms satisfactory to us, or at all.

Our industry is highly competitive, and the possibility that a major client may move all or a portion of its customers to a competitor has increased. While our clients may incur some costs in switching to our competitors, they may do so for a variety of reasons, including if we do not maintain favorable relationships, do not provide satisfactory services and products, or for reasons associated with price. Our new contract with Comcast, executed in March 2004, or the Comcast Contract, contains provisions establishing annual financial minimums for 2004, 2005 and 2006, which we currently expect to exceed based on the current number of customers on our system. Under the terms of the Comcast Contract, which does not include exclusivity for us, Comcast could remove one or more regions from or significantly reduce the number of customers on our system without automatically incurring a financial penalty. We have been working, particularly since the arbitration ruling with Comcast, towards creating a favorable relationship with Comcast and the different Comcast regions we service. However, there can be no assurance that we can achieve or maintain that relationship with Comcast or that Comcast will not move customers for any particular region to a competitor s system.

Our Broadband Division, which accounts for a substantial portion of our revenues, is dependent on the U.S. cable television and satellite industries.

The Broadband Division generates its revenues by providing products and services to the U.S. and Canadian cable television and satellite industries. Although our dependence on these industries has been lessened by earning additional revenues outside the U.S. as a result of the Kenan Business acquisition, revenues from the U.S. cable television and satellite industries are still expected to provide a large percentage of our, and substantially all of the Broadband Division s, total revenues in the foreseeable future. A decrease in the number of customers served by our clients, loss of business due to non-renewal of client contracts, industry and client consolidations, movement of customers from our systems to another vendor s system as a result of regionalization strategies by our clients, and/or changing consumer demand for services could have a material adverse effect on our results of operations. There can be no assurance that new entrants into the video market will become our clients. Also, there can be no assurance that video providers will be successful in expanding into other segments of the converging telecommunications industry. Even if major forays into new markets are successful, we may be unable to meet the special billing and customer care needs of that market.

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Variability of our quarterly revenues and our failure to meet revenue and earnings expectations would negatively affect the market price for our common stock and the CODES.

Variability in quarterly revenues and operating results are inherent characteristics of the software and professional services industries. Common causes of a failure to meet revenue and operating expectations in these industries include, among others:

- the inability to close and/or recognize revenue on one or more material software transactions that may have been anticipated by management in any particular period;
- the inability to timely renew one or more material software maintenance agreements, or renewing such agreements at lower rates than anticipated; and
- the inability to timely and successfully complete an implementation project and meet client expectations, due to factors discussed in greater detail below.

We expect software license, software maintenance services, and professional services revenues to become an increasingly larger percentage of our total revenues in the future. Consequently, as our total revenues grow, so too does the risk associated with meeting financial expectations for revenues derived from our software licenses, software maintenance services, and professional services offerings. As a result, there is a proportionately increased likelihood that we may fail to meet revenue and earnings expectations of the analyst community. Should we fail to meet analyst expectations, by even a relatively small amount, it would most likely have a disproportionately negative impact upon the market price for our common stock and the CODES.

We face significant competition in our industry.

The market for our products and services is highly competitive. We directly compete with both independent providers of products and services and in-house systems developed by existing and potential clients. In addition, some independent providers are entering into strategic alliances with other independent providers, resulting in either new competitors, or competitors with greater resources. Many of our current and potential competitors have significantly greater financial, marketing, technical, and other competitive resources than our company, many with significant and well-established international operations. There can be no assurance that we will be able to compete successfully with our existing competitors or with new competitors.

Our inability to timely and successfully complete a complex implementation project and meet client expectations could have a material adverse effect on our financial condition and results of operations.

Our GSS Division provides a variety of implementation services in conjunction with its software arrangements. The nature of the efforts required to complete the implementations can range from relatively short and noncomplex projects to long and complex projects. These implementation projects typically range from six to twelve months in length, but can be longer or shorter depending upon the specifics of the project. The length and complexity of an individual project is dependent upon many factors including, but not limited to, the following:

the level of software customization, if any, required in the implementation;

the complexity of the client s business, and the client s intended use of our products and services to address their business needs;

whether the project includes multiple software product implementations or services;

the extent of efforts required to integrate our products with the client s other computer systems and business processes;

the amount and type of data that is required to be converted from the client s old application system to the newly implemented system;

the geographic location of the implementation project;

- whether the arrangement includes additional vendors participating in the overall project, including, but not limited to, prime and subcontractor relationships with our company; and

- the responsibility we have assumed for the overall project completion.

For example, from time to time we may assume a prime contractor (or prime integrator) role in a project in addition to our software implementation responsibilities. Prime contractor roles are inherently more difficult and/or complex as we take on the additional responsibility of managing other vendors as part of the project.

Lengthy and/or complex projects carry a greater degree of business risk than those projects that are short and/or noncomplex in nature. Our inability to timely and successfully complete a project and meet client expectations could have a material adverse effect on our financial condition and results of operations by impacting:

- the amount and timing of revenue recognition. We generally account for our software implementation projects using the percentage-of-completion, or POC, method of accounting, and account for our fixed-price, long-term professional services projects using the proportional performance method, which results in revenue recognition that is generally consistent with the POC method of accounting. We apply various judgments and estimates in following these accounting methods, the primary one being the determination of the estimated effort required to complete a project. Significant increases between quarters in the total estimated effort required to complete a project accounted for in this manner can result in a reduction in anticipated quarterly revenues, and possibly, the reversal of previously recognized revenue;

- the overall profitability of a project. Many of our projects are priced on a fixed-fee basis or the amount of fees that can be billed on a time-and-materials basis is capped. As a result, unexpected costs and/or delays can result in the projects being less profitable than originally anticipated or even unprofitable (i.e., a loss contract). In addition, our products may be considered mission critical customer management systems by our clients. As a result, an arrangement may include penalties and/or potential damages for our failure to perform under the agreed-upon terms of the arrangement; and/or

- the timing of invoicing and/or collection of arrangement fees. Our ability to invoice and collect arrangement fees may be dependent upon our meeting certain contractual milestones, or may be dependent on the overall project status in certain situations in which we act as a subcontractor to another vendor on a project. As a result, the status of and/or delays in a project can impact the timing of invoicing and collection of our arrangement fees.

Our business is dependent upon the economic condition of the global telecommunications industry.

Beginning in early 2001, the economic state of the global telecommunications industry deteriorated. This trend continued into 2003. During this time frame, many companies operating within this industry publicly reported decreased revenues and earnings, and several companies filed for bankruptcy protection. Most telecommunications companies reduced their operating costs and capital expenditures to cope with the market condition during these times. Since our clients operate within this industry sector, the economic state of this industry directly impacts our business, potentially limiting the amount of money spent on customer care and billing products and services, as well as increasing the likelihood of uncollectible accounts receivable and lengthening the cash collection cycle.

Recent public reports, as well as our recent experiences with our client base, are providing signs of economic improvement within this industry sector. However, the public reports are mixed as to whether the recovery is real and whether the recovery is sustainable. If a turnaround in market conditions occurs, it will likely be slow, and a full, sustained recovery, if it occurs at all, may take several years. Since a significant amount of our GSS Division s business comes from international sources within this industry sector, the pace at which the market recovers presents a significant risk to our ability to timely collect our accounts receivable, maintain profitability, and grow this segment of our business.

Our international operations subject us to additional risks.

We currently conduct a significant amount of our business outside the United States. We are subject to certain risks associated with operating internationally including:

- difficulties with product development meeting local requirements;

fluctuations in foreign currency exchange rates for which a natural or purchased hedge does not exist or is ineffective;

longer collection cycles for client billings or accounts receivable, as well as heightened client collection risks, especially in countries with highly inflationary economies and/or with restrictions on the movement of cash out of the country;

compliance with laws and regulations related to the collection, use, and disclosure of certain personal information relating to clients customers, such as privacy laws, that are more strict than those currently in force in the United States;

reduced protection for intellectual property rights in some countries;

inability to recover value added taxes and/or goods and services taxes in foreign jurisdictions; and

a potential adverse impact to our overall effective income tax rate resulting from, among other things:

operations in foreign countries with higher tax rates than the United States;

the inability to utilize certain foreign tax credits; and

the inability to utilize some or all of losses generated in one or more foreign countries.

Substantial impairment of the GSS Division s goodwill and other intangible assets in the future may be possible.

As of September 30, 2004, there was approximately $30 million in net intangible assets (primarily software) and approximately $217 million of goodwill that was attributable to the GSS Division, which included the assets from the Kenan Business, ICMS, Davinci, and plaNet acquisitions. Key drivers of the value assigned to these acquisitions are the global telecommunications industry client base and the software assets acquired. We performed our annual GSS Division goodwill impairment test as of July 31, 2004, and also performed certain financial analyses of the GSS Division s other long-lived intangible assets at that time as well, and concluded that no impairment of the GSS Division s goodwill or other long-lived intangible assets had occurred at that time. As of September 30, 2004, we concluded that no events or changes in circumstances have occurred since that time to warrant an impairment assessment of the GSS Division s goodwill and/or other long-lived intangible assets. We will continue to monitor the carrying value of these assets during the period of economic recovery for the telecommunications industry and will perform the next scheduled GSS Division annual goodwill impairment testing in the third quarter of 2005. If the current economic conditions take longer to recover than anticipated, it is reasonably possible that a review for impairment of the GSS Division s goodwill and/or related long-lived intangible assets in the future may indicate that these assets are impaired, and the amount of impairment could be substantial.

A reduction in demand for our key customer care and billing products and services could have a material adverse effect on our financial condition and results of operations.

Historically, a substantial percentage of our total revenues have been generated from our core service bureau processing product, CSG CCS/BP, or CCS, and related services. These CCS products and services are expected to provide a large percentage of our, and most of the Broadband Division s, total revenues in the foreseeable future.

Historically, a substantial percentage of the GSS Division s revenues have been generated from its core customer care and billing system product, CSG Kenan FX (formerly CSG Kenan/BP), and associated software maintenance services and professional services. CSG Kenan FX software licenses and related software maintenance services and professional services are expected to provide a large percentage of the GSS Division s total revenues in the foreseeable future.

Any reduction in demand for CCS and/or CSG Kenan FX and related services discussed above could have a material adverse effect on our financial condition and results of operations, including possible impairments to related goodwill and other intangible assets.

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Client bankruptcies could adversely affect our business, and any accounting reserves we have established may not be sufficient.

The economic state of the telecommunications industry increases the risk of our clients filing for bankruptcy protection. Indeed, certain of our clients have filed for bankruptcy protection, with Adelphia Communications representing the largest one for us. Companies involved in bankruptcy proceedings pose greater financial risks to us, consisting principally of possible claims of preferential payments for certain amounts paid to us prior to the bankruptcy filing date, as well as increased collectibility risk for accounts receivable, particularly those accounts receivable that relate to periods prior to the bankruptcy filing date. We consider such risks in assessing our revenue recognition and the collectibility of accounts receivable related to our clients that have filed for bankruptcy protection. We establish accounting reserves for our estimated exposure on these items. However, there can be no assurance that our accounting reserves related to these items are adequate. Should any of the factors considered in determining the adequacy of the overall reserves change adversely, an adjustment to the provision for doubtful account receivables may be necessary. Because of the potential significance of these items, such an adjustment could be material.

We may incur additional material restructuring charges in the future.

Since the third quarter of 2002, we have recorded restructuring charges related to involuntary employee terminations and various facility abandonments. The accounting for facility abandonments requires significant judgments in determining the restructuring charges, primarily related to the assumptions regarding the timing and the amount of any potential sublease arrangements for the abandoned facilities, and the discount rates used to determine the present value of the liabilities. We continually evaluate these assumptions, and adjust the related facility abandonment reserves based on the revised assumptions at that time. Moreover, we continually evaluate ways to reduce our operating expenses through restructuring opportunities, including the utilization of our workforce and current operating facilities. As a result, there is a reasonable possibility that we may incur additional material restructuring charges in the future.

We may not be able to respond to the rapid technological changes in our industry.

The market for customer care and billing systems is characterized by rapid changes in technology and is highly competitive with respect to the need for timely product innovations and new product introductions. In particular, the Broadband Division recently completed its architectural upgrade to CCS and related services and software products to further support convergent broadband services including cross-service bundling, convergent order entry and advanced service provisioning capabilities. We have migrated several clients to the new platform. CCS s advanced convergent solution is expected to be the Broadband Division s next generation product offering.

In addition, during late 2003, we introduced CSG Kenan FX, which combined certain software technologies we had previously developed with the best of the CSG Kenan/BP product family. CSG Kenan FX was the result of an 18-month research and development project that resulted in a business framework consisting of pre-integrated products and modules that make services available via a common middle layer. CSG Kenan FX is expected to be the GSS Division s primary product offering in future periods.

We believe that our future success in sustaining and growing our revenues depends upon continued market acceptance of our current products, including CCS and CSG Kenan FX, and our ability to continuously adapt, modify, maintain, and operate our products to address the increasingly complex and evolving needs of our clients, without sacrificing the reliability or quality of the products. As a result, substantial research and development will be required to maintain the competitiveness of our products and services in the market. Technical problems may arise in developing, maintaining and operating our products and services as the complexities are increased. Development projects can be lengthy and costly, and are subject to changing

requirements, programming difficulties, a shortage of qualified personnel, and unforeseen factors which can result in delays. In addition, we may be responsible for the implementation of new products, and depending upon the specific product, may also be responsible for operations of the product. There is an inherent risk in the successful implementation and operations of these products as the technological complexities increase. There can be no assurance:

- of continued market acceptance of our current products;
- that we will be successful in the timely development of product enhancements or new products that respond to technological advances or changing client needs; or
- that we will be successful in supporting the implementation and/or operations of product enhancements or new products.

See Our inability to timely and successfully complete a complex implementation project and meet client expectations could have a material adverse effect on our financial condition and results of operations for additional risks related to implementation projects.

The consolidation of the global telecommunications industry may have a material adverse effect on our results of operations.

The global telecommunications industry is undergoing significant ownership changes at an accelerated pace. One facet of these changes is that telecommunications service providers are consolidating, decreasing the potential number of buyers for our products and services. Such client consolidations carry with them the inherent risk that the consolidators may choose to move their purchased customers to a competitor s system. In addition, consolidation in the global telecommunications industry may put at risk our ability to leverage our existing relationships. Should this consolidation result in a concentration of customer accounts being owned by companies with whom we do not have a relationship, or with whom competitors are entrenched, it could negatively affect our ability to maintain or expand our market share, thereby having a material adverse effect to our results of operations.

Failure to attract and retain our key management and other highly skilled personnel could have a material adverse effect on our business.

Our future success depends in large part on the continued service of our key management, sales, product development, and operational personnel. We are particularly dependent on our executive officers. We believe that our future success also depends on our ability to attract and retain highly skilled technical, managerial, operational, and marketing personnel, including, in particular, personnel in the areas of research and development and technical support. Competition for qualified personnel at times can be intense, particularly in the areas of research and development, conversions, software implementations, and technical support, especially now that market conditions are improving and the demand for such talent is increasing. In addition, our restructuring activities adversely impact our workforce as a result of involuntary terminations of employees and may adversely impact our ability to retain key personnel and recruit new employees when there is a need. For these reasons, we may not be successful in attracting and retaining the personnel we require, which could have a material adverse effect on our ability to meet our commitments and new product delivery objectives.

Failure to protect our proprietary intellectual property rights could have a material adverse effect on our financial condition and results of operations.

We rely on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect our proprietary rights in our products. We also hold a limited number of patents on some of our newer products, but do not rely upon patents as a primary means of protecting our rights in our intellectual property. There can be no assurance that these provisions will be adequate to protect our proprietary rights. Although we believe that our intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us or our clients.

Historically, the vast majority of our revenue has come from domestic sources, limiting the need to develop a strong international intellectual property protection program. With the Kenan Business acquisition, we have clients using our products in many countries. As a result, we need to continually assess whether there is any risk to our intellectual property rights in many countries throughout the world. Should these risks be improperly assessed or if for any reason should our right to develop, produce and distribute our products anywhere in the world be successfully challenged or be significantly curtailed, it could have a material adverse effect on our financial condition and results of operations.

The delivery of our products and services is dependent on a variety of mainframe and distributed system computing environments and telecommunications networks, which may not be available or may be subject to security attacks.

The delivery of our products and services is dependent on a variety of mainframe and distributed system computing environments, which we will collectively refer to herein as systems. We provide such computing environments through both out-sourced arrangements, such as our data processing arrangement with First Data Corporation, as well as internally operating numerous distributed servers in geographically dispersed environments. The end users are connected to our systems through a variety of public and private telecommunications networks, which we will collectively refer to herein as networks, and are highly dependent upon the continued availability and uncompromised security of our networks and systems to conduct their business operations. Our networks and systems are subject to the risk of failure as a result of human and machine error, acts of nature and intentional, unauthorized attacks from computer hackers. Security attacks on distributed systems throughout the industry are more prevalent than on mainframe systems due to the open nature of those computer systems. In addition, we continue to expand our use of the Internet with our product offerings thereby permitting, for example, our clients customers to use the Internet to review account balances, order services or execute similar account management functions. Opening up our networks and systems to permit access via the Internet increases their vulnerability to unauthorized access and corruption, as well as increasing the dependency of the systems reliability on the availability and performance of the Internet s infrastructure. As a means to mitigate certain risks in this area of our business, we have implemented a business continuity plan, and test certain aspects of this plan on a periodic basis. In addition, we have implemented a security program utilizing ISO 17799 as a guideline, and periodically undergo a security review of our systems by independent parties, and have implemented a plan intended to mitigate the risk of an unauthorized access to the networks and systems, including network firewalls, procedural controls, intrusion detection systems and antivirus applications.

The method, manner, cause and timing of an extended interruption or outage in our networks or systems are impossible to predict. As a result, there can be no assurances that our networks and systems will not fail, or that our business continuity plans will adequately mitigate any damages incurred as a consequence. Should our networks or systems experience an extended interruption or outage, have their security compromised or data lost or corrupted, it would impede our ability to meet product and service delivery obligations, and likely have an immediate impact to the business operations of our clients. This would most likely result in an immediate loss to us of revenue or increase in expense, as well as damaging our reputation. Any of these events could have both an immediate, negative impact upon our financial condition and our short-term revenue and profit expectations, as well as our long-term ability to attract and retain new clients.

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Risks Relating to the CODES and the Common Stock into which the CODES are Convertible

Servicing the CODES will require a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on the CODES, our existing obligations and debt we may incur in the future depends on our ability to generate cash. Our ability to do so is, to some extent, subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our business may not generate sufficient cash from operations, or we may not have future access to sufficient capital, to enable us to pay our debt, including the CODES, or to fund other liquidity needs. If we fail to generate sufficient cash from operations in the future to service our debt, we could be required to:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our debt, including the CODES;
- sell selected assets; or
- reduce or delay planned expenditures.

Taking these measures may not enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms, if at all. Any inability to generate sufficient cash or raise capital on favorable terms could have a material adverse effect on our financial condition and on our ability to make payments on the CODES.

We may incur additional debt ranking senior to, or pari passu with, the CODES.

As of September 30, 2004, we had no senior indebtedness outstanding. The indenture governing the CODES does not contain any financial or operating covenants that would limit us or our subsidiaries from incurring additional debt or other liabilities (including additional senior debt), pledging assets to secure such debt or liabilities, paying dividends, issuing securities or repurchasing securities issued by us or any of our subsidiaries. We may incur additional debt in the future.

Any increase in our leverage could have significant negative consequences, including:

- increasing our vulnerability to competitive pressures and any adverse economic and industry conditions;
- limiting our ability to obtain additional financings;

- limiting our ability to make acquisitions;
- requiring the dedication of substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, including capital expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete;
- adversely affecting our ability to pay our obligations under the CODES; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

Our ability to satisfy our future obligations, including debt service on the CODES, depends on our future operating performance and on economic, financial, competitive and other factors beyond our control. Our business may not generate sufficient cash flow to meet these obligations or to successfully execute our business strategy. If we are unable to service our debt and fund our business, we may be forced to reduce or delay capital expenditures, seek additional financing or equity capital, restructure or refinance our debt or sell assets. We cannot assure you that we would be able to obtain additional financing or refinance existing debt or sell assets on terms acceptable to us or at all.

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Your right to receive payments under the CODES is junior to our senior debt and certain future borrowings.

The CODES are subordinated unsecured obligations of CSG and will be junior to any senior debt and all of our future borrowings other than our trade payables and any future debt that expressly provides that it ranks *pari passu* with, or is subordinated in right of payment to, the CODES. As of September 30, 2004, we had no senior indebtedness outstanding. We may incur substantial additional liabilities in the future.

As a result of the subordination of the CODES, upon any distribution to our creditors in a bankruptcy, liquidation, reorganization or similar proceeding relating to us or our property, the holders of our senior debt will be entitled to be paid in full in cash before any payment may be made with respect to the CODES. Because the indenture for the CODES requires that amounts otherwise payable to holders of the CODES in such a proceeding be paid to holders of senior debt instead, holders of the CODES may receive less, ratably, than holders of trade payables, as well as holders of senior debt, in any such proceeding.

Your right to receive payments under the CODES is structurally subordinated to the existing and future liabilities of our subsidiaries.

Our subsidiaries have not guaranteed the CODES and the CODES are not secured by any assets of our subsidiaries. Accordingly, the CODES are structurally subordinated to all existing and future liabilities of our subsidiaries. Those liabilities may include indebtedness, trade payables, guarantees (including existing guarantees of our senior secured credit facility) and lease obligations. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, creditors of our subsidiaries will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us. Our subsidiaries have no obligation to pay any amounts due on the CODES or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. As of September 30, 2004, the aggregate liabilities of our subsidiaries, excluding intercompany obligations, were approximately $153.0 million. Our subsidiaries may incur substantial additional liabilities in the future.

We may not have the ability to raise the funds necessary to repurchase the CODES as provided in the indenture.

Holders have the right to require us to purchase for cash all or a portion of their CODES either following a change in control or on one of three specified repurchase dates. We will also be required to make cash payments on the CODES at their maturity. We expect to fund any such obligation using our available cash, cash generated from our operations or cash from other sources, including borrowings or sales of assets or equity. However, it is possible that we will not have sufficient funds at those times to make any required purchase of CODES, and that we will not be able to arrange financing to pay the repurchase price in cash. Our failure to repurchase the CODES would constitute an event of default under the indenture, which default might also constitute a default under the terms of our other debt.

In addition, any of our future debt agreements may restrict our ability to repurchase the CODES, or may require us to make similar repurchases or repayments of other debt simultaneous with a repurchase of the CODES. If the holders of the CODES exercise their right to require us to repurchase all or a substantial portion of the CODES on a repurchase date or in connection with a change in control, either the financial effect of that repurchase or the exercise of that right itself could cause a default under that other debt.

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The change in control purchase feature of the CODES may make more difficult or discourage a takeover proposal or a removal of incumbent management that would otherwise be beneficial to holders of our common stock.

Your right to require us to repurchase the CODES upon the occurrence of a change in control could, in certain circumstances, make more difficult or discourage a potential takeover or a removal of incumbent management that would otherwise benefit the holders of our common stock because we (or our successor) may not have sufficient cash available to satisfy this repurchase obligation.

The Indenture under which the CODES are issued does not contain restrictive covenants, and there is limited protection in the event of a change in control.

The indenture under which the CODES are issued does not contain restrictive covenants that would protect you from several kinds of transactions that may adversely affect you. In particular, the indenture does not contain covenants that limit our ability or the ability of our subsidiaries to pay dividends or make distributions on or redeem our capital stock or limit our ability to incur additional indebtedness and, therefore, will not protect you in the event of a highly leveraged transaction or other similar transaction. In addition, the requirement that we offer to repurchase the CODES upon a change in control is limited to the transactions specified in the definition of a change in control under Description of the CODES Repurchase at Option of Holders Change in Control. Accordingly, we could enter into certain transactions, such as acquisitions, refinancings or a recapitalization, that could affect our capital structure and the value of our common stock but would not constitute a change in control.

Because the CODES will be subject to the special Treasury regulations governing contingent payment debt instruments, the amount of interest required to be included in income by you will exceed the interest actually paid on the CODES and any gain and certain losses on the sale, purchase at your option, exchange, conversion or redemption will be treated as ordinary in character.

For United States federal income tax purposes, the CODES are treated as indebtedness subject to the special Treasury regulations governing contingent payment debt instruments, which we refer to as the contingent debt regulations.

Pursuant to the contingent debt regulations, you will generally be required to accrue interest income at a constant rate of 9.09% per year (subject to certain adjustments), compounded semi-annually, which represents the estimated yield on comparable non-contingent, non-convertible, fixed rate debt instruments with terms and conditions otherwise similar to the CODES. The amount of interest required to be included by you in income for each year generally will exceed the amount of interest paid on the CODES. Specifically, regardless of your method of accounting for U.S. federal income tax purposes, the amount of interest you will be required to include in income in a year will be in excess of the payments and accruals on the CODES for non-tax purposes (i.e., in excess of the stated, semi-annual regular interest payments and accruals and any contingent interest payments) in that year.

You will recognize gain or loss on the sale, purchase by us at your option, exchange, conversion or redemption of a CODES in an amount equal to the difference between the amount realized, including the fair market value of any of our common stock received, and your adjusted tax basis in the CODES. Any gain recognized on the sale, purchase by us at your option, exchange, conversion or redemption of a CODES will be treated as ordinary interest income; any loss will be ordinary loss to the extent of interest previously included in income, and thereafter will be treated as capital loss.

You may in certain situations be deemed to have received a distribution subject to U.S. federal income tax as a dividend in the event of a taxable dividend distribution to holders of common stock or in certain other situations requiring a conversion rate adjustment. For Non-U.S. Holders (as defined herein) this deemed distribution may be subject to U.S. federal withholding requirements.

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A discussion of the United States federal income tax consequences of ownership of the CODES is contained in this registration statement under the heading Material United States Federal Income Tax Considerations. You are strongly urged to consult your tax advisor as to the federal, state, local or other tax consequences of acquiring, owning, and disposing of the CODES.

No public trading market for the CODES exists.

The CODES are a new issue of securities for which there is currently no public market. If the CODES are traded after their initial issuance, they may trade at a discount from their issue price plus accrued original issue discount, depending on prevailing interest rates, the market for similar securities, the price of our common stock, our performance and other factors. In addition, we do not know whether an active trading market will develop for the CODES. Certain of the initial purchasers have informed us that they intend to make a market in the CODES after this offering is complete. However, they may discontinue their market-making activities at any time. To the extent that an active trading market does not develop, the price at which you may be able to sell the CODES, if at all, may be less than the price you pay for them in this offering.

Although this shelf registration statement permits the resale of the CODES and the shares of common stock into which the CODES are convertible by the holders, this registration statement may not be available to holders at all times or for all purposes. If this registration statement does not remain effective, the liquidity and price of the CODES and the shares of common stock into which the CODES are convertible would be adversely affected. In addition, selling securityholders may be subject to liability under the Securities Act in connection with any material misstatements or omissions contained in this registration statement.

Because the CODES are represented by global securities registered in the name of a depositary, you are not a holder under the indenture and your ability to transfer or pledge the CODES could be limited.

The CODES are represented by one or more global securities registered in the name of Cede & Co., as nominee for The Depository Trust Company, or DTC. Except in the limited circumstances described in this prospectus, owners of beneficial interests in the global securities will not be entitled to receive physical delivery of CODES in certificated form and will not be considered holders of the CODES under the indenture for any purpose. Instead, owners must rely on the procedures of DTC and its participants to protect their interests under the indenture and to transfer their interests in the CODES. Your ability to pledge your interest in the CODES to persons or entities that do not participate in the DTC system may also be adversely affected by the lack of a certificate.

Fluctuations in the value of our common stock, whether as a result of our operating results, market fluctuations, future sales of our capital stock or equity-linked securities or other factors, could adversely affect the trading price of our common stock and of the CODES.

The price of our common stock on the Nasdaq National Market changes from time to time. We expect that the market price of our common stock will continue to fluctuate as a result of a variety of economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond our control. Because the CODES are convertible into shares of our common stock, price fluctuations in our common stock could have a similar effect on the trading price of the CODES. Holders who have converted their CODES into shares of common stock will also be subject to the risk of such price fluctuations.

In addition, the terms of the CODES do not restrict us from issuing additional shares of common stock or shares of preferred stock, or securities convertible into shares of common stock or preferred stock, so long as the CODES are outstanding. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption or liquidation or other rights superior to those of holders of our common stock. Any such future sales could have an adverse effect on the trading price of our common stock or the CODES. See Description of Capital Stock.

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The contingent conversion feature of the CODES could result in your not being entitled to convert a CODES when our common stock is trading at a price above the effective conversion price of the CODES.

The CODES are convertible into shares of our common stock only if specific conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your CODES, even though our common stock may be trading at a price above the effective conversion price of the CODES. In such a circumstance, you may not be able to receive the value of the common stock into which the CODES would otherwise be convertible.

A change in the accounting rules relating to how the CODES impact the computation of our diluted earnings per share may cause us to report significant dilution in our diluted earnings per share.

Under the then-existing application of GAAP at the time of the original issuance of the CODES, the CODES would not be included within the computation of diluted earnings per share until the period in which one of the contingent conversion features had been met. However, in September 2004, the Emerging Issues Task Force, or EITF, of the Financial Accounting Standards Board, or FASB, reached a final consensus decision on Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share. In October 2004, the EITF s consensus decision was ratified by the FASB, and EITF 04-8 became effective during the fourth quarter of 2004. The EITF s consensus decision states that shares to be potentially issued under contingently convertible instruments should be included in diluted earnings per share (if dilutive) regardless of whether any of the contingent conversion features have been met.

In December 2004, we made an irrevocable election, prior to the effectiveness of EITF 04-8, to settle in cash 100% of the principal amount of the CODES converted after the date of the election, which requires us to calculate dilution for the CODES using the treasury stock method in periods in which our average stock price exceeds the current effective conversion price of $26.77 per share. See Description of CODES Settlement upon Conversion (3) Conversion after irrevocable election to pay in cash for further information on this election. Under the treasury stock method, we had no reduction in our previously reported diluted earnings per share in the second and third quarters of 2004, as our average stock price did not exceed the effective conversion price of $26.77 per share during these periods. In addition, going forward, the CODES would impact our diluted earnings per share only in those periods in which our average stock price exceeds the current effective conversion price of $26.77 per share.

If you hold CODES, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

If you hold CODES, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will have rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your CODES. For example, in the event that an amendment is proposed to our restated certificate of incorporation or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of the common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or rights of our common stock.

The conversion rate of the CODES may not be adjusted for all dilutive events that may occur.

The conversion rate of the CODES is subject to adjustment for certain events including, but not limited to, the issuance of stock dividends on our common shares, certain distributions of assets, debt securities, capital stock or cash to shareholders and certain issuer tender or exchange offers as described under Description of the CODES Conversion Rate Adjustments. The conversion rate will not, however, be adjusted for other events that may occur, such as an issuance of shares of common stock for cash or a third-party tender offer, that may adversely affect the trading price of the CODES or the common shares.

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Conversion of the CODES will dilute the ownership interest of existing stockholders.

If we elect to settle a conversion of the CODES in shares of our common stock, the conversion of CODES into shares of our common stock will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon conversion of the CODES could adversely affect prevailing market prices of our common stock. In addition, the existence of the CODES may encourage short selling by market participants due to this dilution or to facilitate trading strategies involving CODES and common stock.

Certain provisions of Delaware law, our restated certificate of incorporation and by-laws could hinder, delay or prevent changes in control.

Certain provisions of Delaware law, our restated certificate of incorporation and our by-laws have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control. These provisions include the following:

Special Meetings. According to our by-laws, special meetings of stockholders may be called only by our board of directors, the chairman of our board of directors or our president.

Staggered Board. Our board of directors is divided into three classes, each of whose members will serve for a term of three years, with the members of one class being elected each year.

Removal of Directors. Directors may be removed by the stockholders only for cause, and only by the affirmative vote of the holders of at least 75% of the voting power of all outstanding shares of our capital stock entitled to vote in an election of directors, voting as a single class.

Advance Notice Provisions for Stockholder Nominations and Proposals. Our restated certificate of incorporation and by-laws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

Preferred Stock. Under our restated certificate of incorporation, our board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders.

Delaware Business Combinations. We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation s outstanding voting stock for a period of three years from the date the stockholder becomes a 15% stockholder. In addition to discouraging a third party from acquiring control of us, the foregoing provisions could impair the ability of existing stockholders to remove and replace our management and/or our board of directors.

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THE COMPANY

We are a global leader in next-generation billing and customer care solutions for the cable television, direct broadcast satellite, advanced internet protocol, or IP, services, next-generation mobile, and fixed wireline markets. We were formed in October 1994 and acquired all of the outstanding stock of CSG Systems, Inc. (formerly Cable Services Group, Inc.) from First Data Corporation, or FDC, in November 1994. CSG Systems, Inc. had been a subsidiary or division of FDC from 1982 until its acquisition by us.

Our principal executive offices are located at 7887 East Belleview, Suite 1000, Englewood, Colorado 80111, and the telephone number at that address is (303) 796-2850. Our website is located at http://www.csgsystems.com. We have provided our website address as an inactive textual reference only and the information contained on our website is not a part of this prospectus. Our common stock is listed on the Nasdaq National Market under the symbol CSGS. We are a S&P Midcap 400 company.

PURPOSE OF THE ISSUANCE OF THE CODES

We issued the CODES to improve our underlying capital structure. We believe the CODES provide the following primary benefits to our business:

- The CODES will reduce our debt service costs. Our previous credit facility, which was terminated concurrently with the initial issuance of the CODES, required periodic principal payments through February 2007. There are no scheduled principal payments for the CODES until their maturity in 2024, and, absent a change in control, the CODES are not subject to redemption at the option of the holders until 2011. In addition, because of the convertibility feature of the CODES (as described below under Description of the CODES Conversion Rights) we were able to issue the CODES at a lower fixed interest rate than we would have otherwise paid on senior subordinated debt with a similar maturity. This will reduce the required interest payments.

- The issuance of the CODES allowed us to fully repay and terminate outstanding indebtedness under our then-existing credit facility, which was senior to the CODES with an earlier maturity date and had restrictive covenants, which limited our flexibility in operating our business. The CODES do not have similar restrictive covenants.

- As described below under Description of the CODES Conversion Rights, we have structured the CODES as contingent convertible securities, meaning that holders are only permitted to convert their CODES upon specified contingencies. Under the then-existing application of GAAP at the time of the original issuance of the CODES, the potential dilutive impact of issuing common stock upon conversion of the CODES would be excluded from the computation of diluted earnings per share until one of the specified contingencies to conversion had been met, and would be included in the computation of diluted earnings per share only for the periods in which the CODES would be convertible under one of the specified contingencies to conversion. However, changes to the relevant accounting rules have recently been made. See Risk Factors Risks Relating to the CODES and the Common Stock into which the CODES are Convertible A change in the accounting rules relating to how the CODES impact the computation of our diluted earnings per share may cause us to report significant dilution in our diluted earnings per share.

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RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as income (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense (including the amortization of deferred financing costs) and the estimated interest component of rental expense.

The following table shows our consolidated ratio of earnings to fixed charges for the periods indicated:

	Year ended December 31,					Nine months ended September 30,
	1999	2000	2001	2002	2003(1)	2004(2)
Ratio of earnings to fixed charges	11.32	17.41	26.21	4.42		4.64

(1) As a result of the Comcast arbitration ruling, we recognized a loss from continuing operations before income taxes for the year ended December 31, 2003. The amount of the coverage deficiency for the historical year ended December 31, 2003 was $48.5 million.
(2) Excludes the write-off of unamortized deferred financing costs of $6.6 million resulting from the repayment of our outstanding indebtedness under our then-existing credit facility in June 2004.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the CODES or the common stock issuable upon conversion of the CODES by any selling securityholder. We used the net proceeds from the initial issuance of the CODES, along with our available cash, cash equivalents and marketable securities:

- to fund the concurrent repurchase of approximately 2.1 million shares of our common stock from one of the initial purchasers; and

- to repay in full our outstanding indebtedness under our now-terminated credit facility. The credit facility was terminated concurrently with the repayment.

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PRICE RANGE OF COMMON STOCK

Our common stock is quoted on the Nasdaq National Market under the symbol CSGS. The following table sets forth, for the periods indicated, the high and low sale prices for the common stock on the Nasdaq National Market, as reported by The Nasdaq Stock Market.

	High	Low
Year ended December 31, 2003		
First Quarter	$15.68	$ 8.15
Second Quarter	$14.63	$ 8.31
Third Quarter	$17.29	$12.53
Fourth Quarter	$15.95	$ 8.69
Year ended December 31, 2004		
First Quarter	$17.70	$12.56
Second Quarter	$21.22	$15.85
Third Quarter	$20.98	$14.02
Fourth Quarter	$19.22	$14.57
Year ending December 31, 2005		
First Quarter (through January 24, 2005)	$18.93	$16.72

On January 24, 2005, the closing price of our common stock was $17.52. As of the close of business on January 1, 2005, there were 286 holders of record of our common stock.

DIVIDEND POLICY

We have never declared cash dividends on our common stock. We did, however, complete a two-for-one stock split, effected in the form of a stock dividend, in March 1999. We intend to retain any earnings to finance the growth and development of our business, and have no present intention of declaring cash dividends in the foreseeable future. Any of our future credit facilities may contain restrictions on the payment of dividends. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects, and other factors our board of directors deems relevant.

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DESCRIPTION OF CODES

We issued the CODES under an indenture dated as of June 2, 2004, between us and Deutsche Bank Trust Company Americas, as trustee, in a private transaction that was not subject to the registration requirements of the Securities Act. The terms of the CODES include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. The registration rights agreement dated as of June 2, 2004, between us and the initial purchasers of the CODES sets forth the rights holders have to require us to register their CODES with the SEC.

The following description is only a summary of the material provisions of the CODES, the indenture and the registration rights agreement. We urge you to read these documents in their entirety because they, and not this description, define your rights as holders of the CODES. You may obtain copies of these documents from us at our address set forth under Where You Can Find More Information. Certain terms used in this section but not defined below have the meanings assigned to them in the indenture.

When we refer to CSG Systems, we, our or us in this section, we refer only to CSG Systems International Inc., a Delaware corporation, and not any of its current or future subsidiaries.

Brief Description of the CODES

The CODES:

- are limited to $230,000,000 aggregate principal amount;
- bear interest at a rate of 2.50% per year, payable semi-annually on each June 15 and December 15, beginning December 15, 2004;
- accrue additional amounts if we fail to comply with certain obligations as set forth under Registration Rights ;
- are our unsecured senior subordinated obligations, and rank:
  - junior in right of payment to all of our existing and future senior indebtedness;
  - equally in right of payment to our future indebtedness that provides such indebtedness is *pari passu* with the CODES; and
  - senior in right of payment to our existing and future junior subordinated indebtedness;

- are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of our existing and future subsidiaries;

- are convertible into shares of our common stock, cash or any combination of shares and cash, at our election, as described below under Conversion Rights ;

- are redeemable by us at our option at any time and from time to time on or after June 20, 2011 upon the terms and at the redemption price set forth below under Optional Redemption by CSG Systems ;

- are subject to repurchase by us at your option upon the terms and at the repurchase price set forth below under Repurchase of CODES at Option of Holders ; and

- mature on June 15, 2024, unless earlier converted, redeemed by us at our option or repurchased by us at your option.

For U.S. federal income tax purposes, the CODES will be treated as indebtedness subject to special regulations governing contingent payment debt instruments, which we refer to as the contingent debt regulations. Pursuant to the contingent debt regulations, a U.S. Holder (as defined under Material United States Federal Income Tax Considerations U.S. Holders) will generally be required to accrue interest income on the

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CODES, subject to certain adjustments, at a rate of 9.09%, compounded semiannually, regardless of whether the holder uses the cash or accrual method of tax accounting. Accordingly, U.S. Holders will generally be required to include interest in taxable income in each year in excess of any interest payments (whether fixed or contingent) actually received in that year. For this purpose, a conversion of the CODES will be treated as the receipt of a contingent payment with respect to the CODES, which may produce an adjustment to a U.S. Holder s interest accruals. Under the contingent debt regulations, gain recognized upon a sale, exchange, repurchase or redemption of a CODES will be treated as ordinary interest income; loss will be ordinary loss to the extent of interest previously included in income, and thereafter capital loss. See Material United States Federal Income Tax Considerations.

The indenture does not contain any financial covenants and will not restrict us, or our subsidiaries, from paying dividends, incurring additional indebtedness or issuing or repurchasing other securities. The indenture also will not protect holders in the event of a highly leveraged transaction or a change in control of our company except to the extent described below under Repurchase of CODES at Option of Holders Change in Control. The CODES are not subject to legal or covenant defeasance.

As of September 30, 2004:

- we had no outstanding senior indebtedness;
- we had no outstanding indebtedness ranking *pari passu* with the CODES; and
- our subsidiaries had approximately $153.0 million of liabilities outstanding, excluding intercompany liabilities.

For information regarding form, denomination, registration of transfer and exchange of global CODES, see Form, Denomination and Registration. You must comply with the provisions set forth below under Notice to Investors with respect to any sale or transfer of the CODES and our common stock issuable upon conversion of the CODES.

Payment of Interest and Principal

The CODES bear interest from June 2, 2004 at an annual rate of 2.50%.

We will pay interest semi-annually on June 15 and December 15 of each year, which we refer to as the interest payment dates, to holders of record at the close of business on the immediately preceding June 1 or December 1, respectively, beginning on December 15, 2004. If holders elect to require us to repurchase the CODES, or if we redeem the CODES, on a date that is after a record date and on or prior to the corresponding interest payment date, we will pay interest in respect of accrued and unpaid interest on the CODES being repurchased or redeemed to, but excluding, the repurchase date or the redemption date, respectively, to the holders on the corresponding record date, which may or may not be the same person to whom we will pay the repurchase or redemption price.

We may pay contingent interest on the CODES under the circumstances described under Contingent Interest. We may also pay additional amounts on the CODES under the circumstances described under Registration Rights.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the initial issue date.

If any interest payment date (other than an interest payment date coinciding with the stated maturity date or earlier redemption date or repurchase date) of a CODES falls on a day that is not a business day, such interest payment date will be postponed to the next succeeding business day. If the stated maturity date, redemption date or repurchase date of a CODES would fall on a day that is not a business day, the required payment of interest, if any, and principal will be made on the next succeeding business day and no interest on such payment will accrue for the period from and after the stated maturity date, redemption date or purchase date to such next succeeding business day. The term business day means, with respect to any CODES, any day other than a Saturday, a Sunday or a day on which banking institutions in The City of New York are authorized or required by law, regulation or executive order to close.

Interest will cease to accrue on a CODES upon its maturity, conversion, redemption by us at our option or repurchase by us at your option.

Unless previously converted, redeemed by us at our option or repurchased by us at your option, we will pay interest (including contingent interest and additional amounts, if any) due on:

- the global CODES to DTC in immediately available funds;
- any definitive CODES having an aggregate principal amount of $5,000,000 or less by check mailed to the holders of these CODES; and
- any definitive CODES having an aggregate principal amount of more than $5,000,000 by wire transfer in immediately available funds if requested by holder of those CODES.

In the case of the third bullet above, the trustee must receive wire transfer instructions no later than 15 days prior to the interest payment date.

Unless previously converted, redeemed by us at our option or repurchased by us at your option, at maturity we will pay principal on:

- the global CODES to DTC in immediately available funds; and
- the definitive CODES at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

Conversion Rights

General

You may convert your CODES at any time prior to the business day immediately preceding the maturity date (unless such CODES have been previously converted, redeemed by us at our option or repurchased by us at your option), initially at a conversion rate of 37.3552 shares of our common stock per $1,000 principal amount of CODES, equal to an initial conversion price of approximately $26.77 per share, under the circumstances summarized below. A holder may convert CODES only in denominations of $1,000 and whole multiples of $1,000. The conversion rate will be subject to adjustment as described below under Conversion Rate Adjustments.

On December 15, 2004, we irrevocably elected, by notice to the trustee and the holders of the CODES, to satisfy in cash 100% of the principal amount of the CODES converted after that date. After that date, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock. See Settlement Upon Conversion.

If, however, a holder has already exercised its right to require us to repurchase its CODES as described under Repurchase of CODES at Option of Holders by delivering a holder purchase notice with respect to a CODES, the holder may not convert that CODES until the holder has validly withdrawn such notice in accordance with the indenture and, after such withdrawal, has converted its CODES prior to the close of business on the applicable repurchase date. If you are a holder of CODES that have been called for redemption and wish to convert your CODES, you must exercise your conversion right prior to the close of business on the second business day preceding the redemption date, unless we default in payment of the redemption price.

Except as described in this prospectus, upon conversion of the CODES, we will not make any cash payment or issue additional shares of our common stock or make any other adjustment for either accrued and unpaid interest (including contingent interest and additional amounts, if any) on the CODES or dividends on any shares of our common stock issued. See Conversion Procedures.

Our delivery to you of the full number of shares of our common stock into which your CODES is convertible, cash or a combination of our common stock and cash, together with any cash payment for your fractional shares of our common stock, will be deemed to satisfy our obligation to pay the principal amount of your CODES and to satisfy our obligation to pay any accrued and unpaid interest (including contingent interest and additional amounts, if any) on that CODES. As a result, accrued and unpaid interest and additional amounts on your CODES will be deemed paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, accrued and unpaid interest (including contingent interest and additional amounts, if any) will be payable in cash upon any conversion of CODES at your option made concurrently with or after acceleration of the CODES following an event of default under the CODES.

The conversion agent is initially Deutsche Bank Trust Company Americas. We may change the conversion agent, but the conversion agent will not be our affiliate. The conversion agent may solicit bids from securities dealers that are believed by us to be willing to bid for the CODES.

Conversion Upon Satisfaction of Common Stock Price Condition

A holder may convert any of its CODES during any fiscal quarter (and only during such fiscal quarter) if the closing price of our common stock for a period of at least 20 consecutive trading days in the 30-trading-day period ending on the last trading day of the preceding fiscal quarter is more than 130% of the conversion price per share of our common stock on the last day of such preceding fiscal quarter. We refer to this condition as the common stock price condition. The closing price per share of our common stock on any date means:

- the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported on the Nasdaq National Market or, if our common stock is not listed on the Nasdaq National Market, on the principal U.S. national or regional securities exchange or inter-dealer quotation system on which our common stock is then listed for trading; or

- if our common stock is not reported on the Nasdaq National Market and not listed for trading on a U.S. national or regional securities exchange or inter-dealer quotation system on the relevant date, the closing price will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date as reported by the National Quotation Bureau or similar organization; or

- if our common stock is not reported on the Nasdaq National Market and not listed for trading on a U.S. national or regional securities exchange or inter-dealer quotation system and is not quoted in the over-the-counter market, the closing price will be the average of the mid-points of the last bid and ask prices for our common stock on the relevant date from each of three nationally recognized independent securities dealers we select for this purpose; *provided*, that if such prices cannot reasonably be obtained from three such dealers, but are obtained from two such dealers, then the market price will be the average of the mid-points of such bid and ask prices from those two dealers, and if such prices can reasonably be obtained from only one such dealer, then the market price will be the mid-point of such bid and ask prices from that dealer.

The conversion price per share of our common stock on any day equals the quotient of a $1,000 principal amount of CODES divided by the number of shares of our common stock issuable upon conversion of a $1,000 principal amount of CODES on that day, assuming that such conversion settled entirely with shares (including fractional shares).

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A trading day means a day during which trading in securities generally occurs on the Nasdaq National Market or, if our common stock is not listed on the Nasdaq National Market, on the principal U.S. national or regional securities exchange or inter-dealer quotation system on which our common stock is then listed for trading; *provided*, that no day on which our common stock experiences any of the following (each, a non-trading event) will count as a trading day:

any suspension of or limitation imposed on quotation or trading of our common stock on the Nasdaq National Market or any other national or regional securities exchange or association, inter-dealer quotation system or over-the-counter market; or

the Nasdaq National Market or any other relevant national or regional securities exchange or association, inter-dealer quotation system or over-the-counter market on which our common stock trades closes on any exchange business day prior to its scheduled closing time unless such earlier closing time is announced by the exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such exchange and (ii) the submission deadline for orders to be entered into the exchange for execution on such business day.

This conversion upon satisfaction of stock price condition has been designed to prevent any conversion of the CODES in reliance on this provision unless our stock price has increased to the conversion trigger price for the requisite amount of time, as described above. As a result, you may not be able to convert your CODES in reliance on this condition, even though our common stock may be trading at a price above the effective conversion price of the CODES. See Risk Factors Risk relating to the CODES and the Common Stock into which the CODES are convertible The contingent conversion feature of the CODES could result in your not being entitled to convert a CODES when our common stock is trading at a price above the effective conversion price of the CODES.

Conversion Upon Satisfaction of CODES Price Condition

You may convert any of your CODES during the five business-day period (the measurement period) following any 10-consecutive-trading-day period in which the average of the trading prices per $1,000 of principal amount of CODES for that 10-trading-day period was less than 98% of the average conversion value for the CODES during that period; *provided, however,* you may not convert your CODES in reliance on this provision after June 15, 2019 if on any trading day during the measurement period the closing price of our common stock is greater than or equal to the then-current conversion price but less than or equal to 130% of the then-current conversion price. See Conversion Rights General. We refer to this condition as the CODES price condition.

The average conversion value for each $1,000 principal amount of CODES equals the sum of the conversion values for each trading day in the relevant period divided by the number of trading days in the period. The conversion value of each $1,000 principal amount of CODES on any day is equal to the product of the closing price for our common stock on that day multiplied by the then-current conversion rate, which is the number of shares of common stock into which the $1,000 principal amount of each CODES is then convertible.

The trading price of a CODES on any date of determination means the average of the secondary market bid quotations per CODES obtained by us or the conversion agent for $10 million principal amount of CODES at approximately 3:30 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select; *provided*, that if at least three such bids cannot reasonably be obtained from three such dealers, but are obtained from two such dealers, then the average of the two bids shall be used, and if such prices can reasonably be obtained from only one dealer, that one bid shall be used. If either we or the conversion agent cannot reasonably obtain at least one bid for $10 million principal amount of the CODES from a nationally recognized securities dealer, then the trading price of the CODES for that date will, for purposes of determining the average conversion value, be deemed to be 97.9% of (a) the then-applicable conversion rate of the CODES multiplied by (b) the closing price of our common stock on such determination date.

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Notwithstanding anything to the contrary in this prospectus, the conversion agent will have no obligation to determine the trading price of the CODES unless we have requested that it make such determination. We will have no obligation to make such request unless so requested by a holder in writing who also provides us with reasonable evidence in that on a trading day preceding the date of such notice, the trading price per $1,000 principal amount of CODES was less than 98% of the conversion value. At such time, we will instruct the conversion agent to determine the trading price per $1,000 principal amount of CODES beginning on the next trading day and on each successive trading day until such trading price is greater than or equal to 98% of the average conversion value for 10 consecutive trading days. We will confirm whether any such determination made by the conversion agent satisfies the CODES price condition.

This conversion upon satisfaction of CODES price condition has been designed to allow you to convert your CODES if, because of trading irregularities or otherwise, the CODES are trading at less than their conversion value.

Conversion Upon Notice of Redemption

A holder may surrender for conversion any CODES we call for redemption at any time prior to the close of business on the day that is two business days prior to the redemption date, even if such CODES is not otherwise convertible at that time pursuant to its terms or the terms of the indenture.

Conversion Upon Specified Corporate Transactions

If:

- we distribute to all or substantially all holders of our common stock rights or warrants entitling them to purchase our common stock, unless such rights, warrants or securities shall not be exercisable or convertible for a period of at least 60 days after the date of distribution (or securities convertible into our common stock) at less than (or having a conversion price less than) the then-current market price (as defined below under Conversion Rate Adjustments) of our common stock on the day of the announcement date of such distribution;

- we distribute to all or substantially all holders of our common stock our assets, debt securities or other evidences of our indebtedness, shares of our capital stock or rights or warrants to purchase our securities, which distribution has a per share value exceeding 5% of the then-current market price (as defined below under Conversion Rate Adjustments) of our common stock on the day preceding the declaration date of for such distribution; or

- a change in control as described under Repurchase of CODES at Option of Holders Change in Control has occurred but holders of CODES do not have the right to require us to repurchase their CODES as a result of such change in control because either (1) the closing price of our common stock for a specified period prior to such change in control exceeds a specified level or (2) the consideration received in such change in control consists of capital stock that is freely tradable and the CODES become convertible into that capital stock,

then we must notify the holders of CODES at least 20 days prior to the ex-dividend date for such distribution or within 20 business days after the occurrence of the change in control described in the third bullet point above, as the case may be. Once we have given such notice, holders may convert their CODES at any time until either (a) the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place, in the case of a distribution, or (b) the close of business on the 20th business day after the change in control notice, in the case of a change in control described in the third bullet point above. In the case of a distribution, no conversion pursuant to that distribution will be allowed if the holder will participate in the distribution without conversion. The ex-dividend date means, with respect to any issuance or distribution on shares of our common stock, the first date on which the shares of our common stock trade regular way on the principal securities market on which the shares of our common stock are then traded without the right to receive such issuance or distribution.

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In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property (other than any change in control described in the third bullet point in the previous paragraph), a holder may convert its CODES at any time from and after the date which is 20 days prior to the anticipated effective date of the transaction until 20 days after the effective date of that transaction. If we are a party to a consolidation, merger or binding share exchange pursuant to which our common stock is converted into cash, securities or other property, then from the effective time of the transaction, the right to convert a CODES into our common stock will be changed into a right to convert that CODES into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its CODES immediately prior to the transaction. If we engage in any transaction described in the preceding sentence, the conversion rate will not be otherwise adjusted. If the transaction also constitutes a change in control, as defined below, the holder can require us to purchase all or a portion of its CODES as described under Repurchase of CODES at Option of Holders Change in Control.

These conversion upon specified corporate event conditions have been designed to allow you to convert your CODES prior to the occurrence of the specified corporate events described above if you would prefer not to be a holder of the CODES after such specified corporate event.

Settlement Upon Conversion

(1) *Conversion on or prior to the final notice date*. In the event that we receive your notice of conversion on or prior to the day that is 23 business days prior to maturity or, with respect to CODES being redeemed, the applicable redemption date (the final notice date), the following procedures will apply:

If we elect to satisfy all or any portion of our obligation (the conversion obligation) in cash, we will notify the converting holder through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the date that is five trading days following receipt of the converting holder s notice of conversion (the cash settlement notice period). If we timely elect to satisfy all or any portion of our conversion obligation in cash, the converting holder may retract its conversion notice at any time during the two-trading-day period beginning on the day after the final day of the cash settlement notice period (the conversion retraction period). No such retraction may be made (and a conversion notice will be irrevocable) if we do not elect to satisfy all or any portion of our conversion obligation in cash (other than cash in lieu of any fractional shares). If the conversion notice has not been retracted, then settlement (in cash and/or shares of our common stock) will occur on the third trading day following the final day of the 20-trading-day period beginning on the third trading day following the final day of the conversion retraction period (the cash settlement averaging period). The amount of cash and/or shares we will deliver in respect of a conversion obligation (the settlement amount) will be computed as follows:

If we elect to satisfy the entire conversion obligation in shares of our common stock, we will deliver to you a number of shares of our common stock equal to:

the aggregate principal amount of the CODES to be converted divided by 1,000, multiplied by

the then-effective conversion rate.

If we elect to satisfy the entire conversion obligation in cash, we will deliver to you cash in an amount equal to:

a number equal to (a) the aggregate principal amount of the CODES to be converted divided by 1,000, multiplied by (b) the then-effective conversion rate, multiplied by

the arithmetic average of the volume-weighted average prices (as defined below under Settlement Upon Conversion) of our common stock for each trading day during the cash settlement averaging period.

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If we elect to satisfy a portion of the conversion obligation in cash (other than 100%), we will deliver to you that specified cash amount (the cash amount) plus the number of shares of our common stock equal to the greater of:

zero, and

the excess, if any, of

the number of shares of our common stock equal to (X) the aggregate principal amount of the CODES to be converted divided by 1,000, multiplied by (Y) the then-effective conversion rate, minus

the number of shares of our common stock equal to the quotient of (X) the cash amount, divided by (Y) the arithmetic average of the volume-weighted average prices of our common stock for each trading day during the cash settlement averaging period.

(2) *Conversion after the final notice date*. In the event that we receive your notice of conversion after the final notice date, we will not send individual notices of our election to satisfy all or any portion of the conversion obligation in cash. Instead, if we elect to satisfy all or any portion of the conversion obligation in cash, we will send a single notice to the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the final notice date. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under Conversion on or prior to the final notice date except that the cash settlement averaging period shall be the 20 consecutive trading days ending on the third trading day prior to the maturity date or the applicable redemption date, as applicable. If we elect to satisfy all or any portion of our conversion obligation in respect of conversions made after the final notice date in cash, converting holders may retract a conversion notice that was given after the final notice date at any time prior to the close of business on the day that is two business days prior to the redemption date or the business day immediately preceding the maturity date, as the case may be. Settlement (in cash and/or shares) will occur on the third trading day following the final day of such cash settlement averaging period.

(3) *Conversion after irrevocable election to pay principal in cash*. On December 15, 2004, we irrevocably elected, by notice to the trustee and the holders of the CODES, to satisfy in cash 100% of the principal amount of the CODES converted after that date. After that date, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock. If we elect to satisfy all or a portion of the remainder of our conversion obligation in cash, we will provide notice of our election in the same manner as set forth above under either Conversion after the final notice date or Conversion on or prior to the final notice date, whichever is applicable. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth under Conversion after the final notice date or Conversion on or prior to the final notice date, as applicable.

The volume-weighted average price of one share of our common stock on any trading day will be the volume-weighted average prices as displayed under the heading Bloomberg VWAP on Bloomberg Page CSGS <equity> AQR in respect of the period from 9:30 a.m. to 4:00 p.m. (New York City time) on that trading day (or if such volume-weighted average price is not available, the market value of one share of our common stock on such trading day as we determine in good faith using a volume-weighted method).

Notwithstanding the above, if our common stock experiences any non-trading event on any day during the original cash settlement averaging period (determined assuming our common stock experienced no non-trading event during that period) that would result in a volume-weighted average price being determined later than the eighth trading day after the last day of the original cash settlement averaging period, then we will determine any delayed and undetermined prices on that eighth trading day based on our good faith estimate of our common stock s value on the day on which such non-trading event occurred.

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We will not issue fractional shares of our common stock upon conversion of CODES. Instead, we will pay a cash amount based upon the closing price of our common stock on the trading day that is three business days prior to the conversion date.

Conversion Procedures

Except as described below, if you convert your CODES on any day other than an interest payment date, you will not receive any payment in cash with respect to interest (including contingent interest and additional amounts, if any) that has accrued on those CODES since the prior interest payment date. If you convert your CODES after a record date for an interest payment but prior to the corresponding interest payment date, you (or, if you were not the holder on the record date, the predecessor holder on the record date) will receive on the interest payment date interest accrued and unpaid on such CODES (including contingent interest and additional amounts, if any), notwithstanding the conversion of such CODES prior to such interest payment date. At the time of conversion of such CODES, however, you must pay us an amount equal to the interest (including contingent interest and additional amounts, if any) that you (or, if you were not the holder on the record date, the predecessor holder on the record date) will receive on the interest payment date on the CODES being converted. The preceding sentence, however, does not apply if you convert, after a record date for an interest payment but prior to the corresponding interest payment date, CODES that we call for redemption prior to such conversion on a redemption date that is on or prior to the second business day after such interest payment date. Accordingly, if we call your CODES for redemption on a date that is after a record date for an interest payment but on or prior to the second business day after the corresponding interest payment date, and prior to the redemption date you choose to convert your CODES, you will not be required to pay us, at the time you surrender such CODES for conversion, the amount of interest on such CODES that you will receive on the interest payment date.

You will not be required to pay any transfer taxes or duties relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any transfer taxes or duties which may be payable relating to any transfer involved in the issuance or delivery of common stock in a name other than yours. If you convert any CODES within two years after its original issuance, any common stock issuable upon conversion will not be issued or delivered in a name other than yours unless the applicable restrictions on transfer have been satisfied. See Notice to Investors. Certificates representing shares of our common stock will be issued or delivered only after all applicable transfer taxes and duties, if any, payable by you have been paid.

To convert interests in a global CODES, you must deliver to DTC the appropriate instruction form for conversion pursuant to DTC s conversion program. To convert a definitive CODES (should CODES become issuable in definitive form), you must:

- complete the conversion notice on the back of the CODES (or a facsimile thereof);
- deliver the completed conversion notice and the CODES to be converted to the specified office of the conversion agent;
- pay all funds required, if any, relating to interest on the CODES to be converted to which you are not entitled, as described in the second preceding paragraph; and
- pay all transfer taxes or duties, if any, as described in the preceding paragraph.

The conversion date will be the date on which all of the foregoing requirements have been satisfied. The CODES will be deemed to have been converted immediately prior to the close of business on the conversion date. We will deliver, or cause to be delivered, to you cash, shares of our common stock or a combination of cash and shares, as described above under Settlement Upon Conversion, together with any cash payment for your fractional shares as soon as practicable on or after the conversion date, subject to satisfaction of the cash settlement averaging period provisions, if applicable.

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The conversion agent will determine on our behalf if the CODES are convertible upon satisfaction of the common stock price condition at the end of each quarter, in each case notifying us and the trustee. Whenever the CODES become convertible (or, in the case of conversion upon satisfaction of CODES price condition, whenever the conversion agent has determined that such CODES price condition is met), we or, at our request, the trustee in our name and at our expense, will notify the holders of the event triggering such convertibility in accordance with the indenture, and we will issue a press release through Dow Jones & Company, Inc. or Bloomberg Business News containing the relevant information and make this information available on our website or through another public medium as we may use at that time. Any notice so given will be conclusively presumed to have been duly given, whether or not the holder receives such notice.

Conversion Rate Adjustments

We will adjust the initial conversion rate for certain events, including:

(1) the issuance of shares of our common stock as a dividend or a distribution on our common stock, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

> the numerator of which is the sum of (a) the number of shares of our common stock outstanding on the record date fixed for the dividend or distribution plus (b) the total number of shares constituting the dividend or distribution; and
>
> the denominator of which is the number of shares of our common stock outstanding on the record date fixed for the dividend or distribution;

(2) subdivisions, splits, combinations and reclassifications of our common stock, in which event the conversion rate then in effect will be proportionately increased or reduced;

(3) the issuance by us of rights or warrants to all or substantially all holders of our common stock entitling holders to subscribe for or purchase shares of our common stock (or securities convertible into our common stock) at less than (or having a conversion price per share less than) the then-current market price of our common stock, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

> the numerator of which is the sum of (a) the number of shares of our common stock outstanding on the record date fixed for the distribution plus (b) the total number of additional shares of our common stock offered for subscription or purchase (or into which such convertible securities could be converted); and
>
> the denominator of which is the sum of (a) the number of shares of our common stock outstanding on the record date fixed for the distribution plus (b) the total number of shares of our common stock that the aggregate offering price of the total number of shares offered for subscription or purchase (or the aggregate conversion price of such convertible securities) would purchase at the then-current market price;

(4) distributions to all or substantially all holders of our common stock of our assets, debt securities or other evidences of our indebtedness, shares of our capital stock or rights or warrants to purchase our securities (excluding (A) any dividend, distribution or issuance covered by

clause (1) or (3) above and (B) any dividend or distribution paid exclusively in cash), in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which is the then-current market price of a share of our common stock; and

the denominator of which is (a) the then-current market price of a share of our common stock minus (b) the fair market value, as determined by our board of directors, except as described in the following sentence, of the portion of those assets, debt securities or other evidences of our indebtedness, shares of capital stock or rights or warrants so distributed applicable to one share of common stock on the declaration date for such distribution;

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In the event that we make a distribution to all holders of our common stock that consists of shares of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, any conversion rate adjustment will be based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average of the closing prices of those securities for each of the 10 trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such dividend or distribution on the Nasdaq National Market, the New York Stock Exchange or such principal other national or regional exchange or market on which the securities are then listed or quoted;

(5) dividends or other distributions consisting exclusively of cash to all or substantially all holders of our common stock, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which will be the then-current market price per share of our common stock; and

the denominator of which will be (a) the then-current market price per share of our common stock minus (b) the amount per share of such dividend or distribution; and

(6) purchases of our common stock pursuant to a tender offer or exchange offer made by us or any of our subsidiaries to the extent that the same involves an aggregate consideration that, together with:

the aggregate of cash and the fair market value of any other consideration paid in any other tender offer by us or any of our subsidiaries for our common stock expiring within the 12 months preceding such tender offer for which no adjustment has been made, plus

the aggregate amount of any all-cash distributions referred to in clause (5) above to all holders of our common stock within 12 months preceding the expiration of such tender offer for which no adjustments have been made,

exceeds 10% of our market capitalization on the expiration of such tender offer, in which event the conversion rate will be adjusted by multiplying the conversion rate then in effect by a fraction:

the numerator of which will be the product of (a) the number of shares of our common stock outstanding (including any tendered shares) at the expiration of the tender offer and (b) the then-current market price of a share of our common stock at such expiration time; and

the denominator of which will be (a) the product of (X) the number of shares of our common stock outstanding (including any tendered shares) at the expiration of the tender or exchange offer and (Y) the then-current market price of our common stock at such expiration time minus (b) the amount by which such combined amount exceeds 10% of our market capitalization.

The then-current market price on any date means the average of the closing prices per share of common stock for the 10 consecutive trading days prior to such date. Our market capitalization, on any date, means the product of the closing price of our common stock multiplied by the number of shares of our common stock outstanding on such date.

We will not make an adjustment in the conversion rate unless such adjustment would require a change of at least 1% in the conversion rate then in effect; *provided*, that we will carry forward any adjustments that are less than 1% of the conversion rate then in effect and make an aggregate adjustment representing all such carried forward adjustments, even if that aggregate adjustment is less than 1%, upon the earlier of:

- a date (determined by us) that may be no more than one year following the date of the first such adjustment carried forward; and

- any time at which any holder surrenders for conversion any CODES we call for redemption as described under Conversion Rights Conversion Upon Notice of Redemption above.

Once we make any such aggregate adjustment, we will recommence carrying forward any adjustments in the manner described above until such time as we are required to make another aggregate adjustment.

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If rights or warrants for which an adjustment to the conversion rate has been made expire unexercised, the conversion rate will be readjusted to take into account the actual number of such rights or warrants which were exercised.

If we:

- reclassify or change our common stock (other than changes resulting from a subdivision or combination); or
- consolidate or combine with or merge into or are a party to a binding share exchange with any person or sell or convey to another person all or substantially all of our property and assets,

and the holders of our common stock receive (or the common stock is converted into) stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for their common stock, then, at the effective time of the transaction, the holders of the CODES may convert the CODES into the consideration they would have received if they had converted their CODES immediately prior to the reclassification, change, consolidation, combination, merger sale or conveyance. We may not become a party to any such transaction unless its terms are consistent with the foregoing.

In the event we elect to make a distribution described under clause (3) or (4) of the first paragraph of this subsection Conversion Rate Adjustments, which, in the case of clause (4), has a per share value equal to more than 5% of the then-current market price of our shares of common stock on the business day immediately preceding the declaration date for the distribution, we will be required to give notice to the holders of CODES at least 20 days prior to the ex-dividend date for the distribution and, upon the giving of notice, the CODES may be surrendered for conversion at any time until the close of business on the business day prior to the ex-dividend date or until we announce that the distribution will not take place. No adjustment to the conversion rate or the ability of a holder of a CODES to convert will be made in respect of a distribution described under clauses (1), (3), (4) and (5) of such paragraph if the holder will otherwise participate in the distribution without conversion.

In the case of any distribution described under (4) of the first paragraph of this subsection Conversion Rate Adjustments, in which:

- the fair market value of such distribution applicable to one share of common stock equals or exceeds the average of the closing prices of our common stock over the 10-consecutive trading-day period ending on the record date for such distribution, or
- such average closing price exceeds the fair market value of such distribution by less than $1.00,

then, in each such case, rather than being entitled to an adjustment in the conversion rate, adequate provision shall be made so that each holder of a CODES shall have the right to receive upon conversion of a CODES, in addition to cash and/or shares of our common stock as specified by the terms of those CODES, the kind and amount of such distribution that such holder would have received if it had converted its CODES entirely into common stock immediately prior to the record date for determining the shareholders entitled to receive the distribution at the conversion rate then in effect.

If a taxable distribution to holders of our common stock or other transaction occurs which results in any adjustment of the conversion rate (including an adjustment at our option), you may in certain circumstances be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common stock. See Material United States Federal Income Tax Considerations.

To the extent permitted by law, from time to time we may increase the conversion rate or reduce the conversion price of the CODES by any amount for any period of at least 20 days. In that case, we will give at least 15 days notice of such change. We may also increase the conversion rate or reduce the conversion price as our board of directors deems advisable to avoid or diminish any income tax to holders of our common stock

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resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes. In no event will we take any action that would require adjustment to the conversion rate or the conversion price nor will we make any such adjustment, if such adjustment would require us to issue, upon conversion of the CODES, a number of shares of our common stock that would require us to obtain prior shareholder approval under the rules and regulations of the Nasdaq National Market and, if applicable, the rules of any other exchange or quotation system on which our common stock is then traded without obtaining such prior shareholder approval.

The applicable conversion rate will not be adjusted:

- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or convertible security outstanding as of the date the CODES are initially issued;

- for a change solely in the par value of the common stock; or